

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Houghton County Medical Care Facility	County Houghton
Audit Date 9/30/05	Opinion Date 11/16/05	Date Accountant Report Submitted to State: 2/7/06	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			X
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Anderson, Tackman & Co, PLC			
Street Address 102 W. Washington St., Suite 109	City Marquette	State MI	ZIP 49855
Accountant Signature Michael A. Tackman			

**HOUGHTON COUNTY MEDICAL
CARE FACILITY
Financial Statements as of
September 30, 2005 and 2004**

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ANDERSON, TACKMAN & COMPANY, P.L.C.

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INDEPENDENT AUDITORS' REPORT

Department of Human Services Board
Houghton County Medical Care Facility

We have audited the statement of net assets of the Houghton County Medical Care Facility, an enterprise fund of the County of Houghton as of September 30, 2005 and 2004, and the related statement of revenues, expenses, and changes in net assets and statement of cash flows for the years then ended. These financial statements are the responsibility of the Medical Care Facility's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Houghton County Medical Care Facility at September 30, 2005 and 2004, and the changes in its financial position and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 16, 2005 on our consideration of the Facility's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreement and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit. This report can be found on pages 28 and 29.

The management's discussion and analysis on pages 5 through 8 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Department of Human Services Board
Houghton County Medical Care Facility

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the table of contents as other financial information are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic statements taken as a whole.

Anderson, Tackman & Company, PLC
Certified Public Accountants

November 16, 2005

County of Houghton, Michigan
Houghton County Medical Care Facility

MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of the Houghton County Medical Care Facility's financial performance provides an overview of the Facility's financial activities for the year ended September 30, 2005. Please read it in conjunction with the financial statements, which begin on page 9.

FINANCIAL HIGHLIGHTS

- Net assets for the Facility as a whole were reported at \$12,799,852 and \$12,873,185, as of September 30, 2005 and 2004, respectively. Net assets are comprised of 100% business-type activities.
- During the year, the Facility's total expenses were \$13,531,873, while revenues from all sources totaled \$13,458,540 resulting in a decrease in net assets of (\$73,333).

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets (on pages 9 and 10) provide information about the activities of the Facility as a whole and present a longer-term view of the Facility finances.

Reporting the Facility as a Whole

One of the most important questions asked about the Facility's finances is "Is the Facility as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets report information about the Facility as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the Facility's *net assets* and changes in them. You can think of the Facility's net assets - the difference between assets and liabilities - as one way to measure the Facility's financial health, or *financial position*. Over time, *increases or decreases* in the Facility's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the Facility's resident base and the condition of the Facility's capital assets, to assess the *overall financial health* of the Facility.

In the Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets, we report all of the Facility's activities as business-type activities because the Facility charges a fee to residents to help it cover the cost of services it provides and the Facility is reported as an enterprise fund of the County of Houghton, Michigan.

The Facility as a Whole

Table I provides a summary of the Facility's net assets as of September 30, 2005 and 2004.

**Table 1
Net Assets**

	2005	2004
Current and other assets	\$7,482,720	\$7,432,685
Capital assets, net	6,763,906	6,981,557
Total Assets	14,246,626	14,414,242

County of Houghton, Michigan
Houghton County Medical Care Facility

MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)

	2005	2004
Current liabilities	\$1,446,774	\$1,541,057
Total Liabilities	<u>1,446,774</u>	<u>1,541,057</u>
Net Assets:		
Invested in capital assets	6,763,906	6,981,557
Unrestricted	6,035,946	5,891,628
Total Net Assets	<u>\$12,799,852</u>	<u>\$12,873,185</u>

Net assets of the Facility's business-type activities stood at \$12,799,852. Unrestricted net assets—the part of net assets that could be used to finance day-to-day activities stood at \$6,035,946.

The \$6,035,946 in unrestricted net assets represents the accumulated results of all past years' operations. The results of this year's operations for the Facility as a whole are reported in the Statement of Revenues, Expenses and Changes in Net Assets (see Table 2), which shows the changes in net assets for fiscal years 2005 and 2004.

Table 2
Changes in Net Assets

	2005	2004
Operating revenues:		
Net patient service revenues	\$11,761,660	\$11,294,600
Other operating revenues	14,822	20,654
Total Operating Revenues	<u>11,776,482</u>	<u>11,315,254</u>
Operating expenses:		
General and administrative	3,624,710	3,379,922
Nursing services	5,120,170	5,015,613
Other expenses	3,639,282	3,455,990
Depreciation	624,877	497,697
Total Operating Expenses	<u>13,009,039</u>	<u>12,349,222</u>
Income (loss) from Operations	<u>(1,232,557)</u>	<u>(1,033,968)</u>
Non-operating Revenues (Expenses):		
Property taxes and other	1,249,160	1,332,047
Proportionate share reimbursement, net of		
Intergovernmental transfer expense	424,692	490,175
Maintenance of effort	(522,834)	(460,874)
Other	8,206	6,632
Total Non-operating Revenues (Expenses)	<u>1,159,224</u>	<u>1,367,980</u>
Increase (decrease) in net assets	<u>(73,333)</u>	<u>334,012</u>
Net assets, beginning	<u>12,873,185</u>	<u>12,539,173</u>
Net Assets, Ending	<u>\$12,799,852</u>	<u>\$12,873,185</u>

County of Houghton, Michigan
Houghton County Medical Care Facility

MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)

The Facility's total revenues were \$13,458,540. The total cost of all programs and services was \$13,531,873 leaving a decrease in net assets of (\$73,333) as a result of fiscal year 2005 operations. The fiscal year 2005 decrease in net assets is primarily due to nonoperating losses, specifically property tax revenue decrease and maintenance of effort expense increase.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2005, the Facility had \$6,763,906 invested in a variety of capital assets including land, buildings, and other equipment. (See table 4 below)

Table 4
Capital Assets at Year-End

	2005	2004
Land and improvements	\$13,827	\$13,827
Buildings	10,812,809	10,446,861
Equipment and furnishings	2,778,118	2,707,290
Work in progress	24,179	53,728
	13,628,933	13,221,706
Accumulated depreciation	(6,865,027)	(6,240,149)
Totals	\$6,763,906	\$6,981,557

Capital plans for FY2006 include kitchen ventilation upgrade at approximately \$130,000 and enhanced air conditioning to resident areas with no cost estimates yet.

Debt

The Facility has no outstanding debt at year-end.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The Facility's appointed officials consider many factors when setting the fiscal year 2006 budget. One of those factors is the economy. The Facility is heavily dependent on Medicaid revenue. With the current budget constraints faced by the state and national government, the Facility can expect very little in enhanced Medicaid revenue. The FY2006 Medicaid rate was not finalized when the budget was prepared and is also subject to mid-year adjustments. On the expense side, significant increases in health and liability insurance and utilities will negatively impact operating income.

The Facility will closely monitor developments in the Medicaid rate setting process and adjust the budget accordingly.

County of Houghton, Michigan
Houghton County Medical Care Facility

MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)

CONTACTING THE FACILITY FINANCIAL MANAGEMENT

This financial report is designated to provide our taxpayers, investors and creditors with a general overview of the Facility's finances and to show the Facility's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Facility Administrator at Houghton County Medical Care Facility, 1100 Quincy Avenue, Hancock, Michigan, 49930.

Houghton County Medical Care Facility
Statement of Net Assets
September 30, 2005 and 2004

	2005	2004
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 2,994,352	\$ 3,176,237
Internally designated cash:		
Replacement of capital assets	2,235,043	1,815,892
Workers compensation contingency	387,500	387,500
Total Cash and Cash Equivalents	<u>5,616,895</u>	<u>5,379,629</u>
Resident trust - cash	4,487	3,822
Accounts receivable:		
Private insurance and self-pay	255,420	208,377
Medicare	65,263	49,907
Medicaid	654,253	697,622
Other	40,561	46,888
Allowance for doubtful accounts	(132,074)	(132,074)
Other receivables:		
Taxes receivable (net allowance of \$10,000)	-	255,907
Due from State of Michigan	660,642	658,974
Due from County	-	-
Inventory of food and other supplies	119,841	115,994
Prepaid expenses	<u>197,432</u>	<u>147,639</u>
TOTAL CURRENT ASSETS	<u>7,482,720</u>	<u>7,432,685</u>
Noncurrent Assets:		
Capital assets, net	<u>6,763,906</u>	<u>6,981,557</u>
TOTAL ASSETS	<u>14,246,626</u>	<u>14,414,242</u>
LIABILITIES		
Current Liabilities:		
Accounts payable	227,531	397,995
Accrued salaries and wages	85,946	71,842
Accrued sick and vacation pay	456,035	407,363
Payroll and withheld taxes	7,467	5,204
Medicaid interim payments	665,308	654,831
Resident trust funds	<u>4,487</u>	<u>3,822</u>
TOTAL LIABILITIES	<u>1,446,774</u>	<u>1,541,057</u>
NET ASSETS		
Invested in capital assets	6,763,906	6,981,557
Unrestricted	<u>6,035,946</u>	<u>5,891,628</u>
TOTAL NET ASSETS	<u>\$ 12,799,852</u>	<u>\$ 12,873,185</u>

The accompanying notes to financial statements are an integral part of this statement.

Houghton County Medical Care Facility
Statement of Revenues, Expenses and Changes in Net Assets
For the years ended September 30, 2005 and 2004

	2005	2004
OPERATING REVENUES:		
Net patient service revenues	\$ 11,761,660	\$ 11,294,600
Other operating revenues	14,822	20,654
TOTAL OPERATING REVENUES	<u>11,776,482</u>	<u>11,315,254</u>
OPERATING EXPENSES:		
General and administrative	3,624,710	3,379,922
Maintenance	940,591	873,547
Laundry	299,984	297,847
Housekeeping	444,013	422,637
Dietary	1,211,628	1,160,843
Pharmacy	68,011	52,880
Nursing	5,120,170	5,015,613
Social services	115,219	111,004
Physical therapy	277,815	253,708
Occupational therapy	232,500	230,147
Vehicles	10,211	10,161
Professional services	28,472	26,035
Other expense	10,838	17,181
Provision for bad debt	-	-
Provision for depreciation	624,877	497,697
TOTAL OPERATING EXPENSES	<u>13,009,039</u>	<u>12,349,222</u>
INCOME (LOSS) FROM OPERATIONS	<u>(1,232,557)</u>	<u>(1,033,968)</u>
NONOPERATING REVENUES (EXPENSES):		
Property taxes and other	1,249,160	1,332,047
Private contributions	8,007	6,285
Other	199	347
Proportionate share reimbursement, net of intergovernmental transfer expense	424,692	490,175
Maintenance of effort	(522,834)	(460,874)
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>1,159,224</u>	<u>1,367,980</u>
CHANGE IN NET ASSETS	(73,333)	334,012
Net assets, beginning of year	<u>12,873,185</u>	<u>12,539,173</u>
NET ASSETS, END OF YEAR	<u><u>\$ 12,799,852</u></u>	<u><u>\$ 12,873,185</u></u>

The accompanying notes to financial statements are an integral part of this statement.

Houghton County Medical Care Facility
Statements of Cash Flows
For the years ended September 30, 2005 and 2004

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net cash received from fees and charges for services	\$ 12,014,074	\$ 11,604,150
Other operating revenues	14,822	20,654
Cash payments to employees for services	(7,199,807)	(7,185,710)
Cash payments for payroll taxes	(539,212)	(590,071)
Cash payments to suppliers for goods and services	(4,804,609)	(4,088,576)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>(514,732)</u>	<u>(239,553)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Cash received from property and other taxes	1,249,160	1,563,642
Cash received from proportionate share reimbursement, net of intergovernmental transfers	424,692	490,175
Cash received from contributions and other sources	8,205	6,632
Cash payments for County maintenance of effort	(522,834)	(460,874)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>1,159,223</u>	<u>1,599,575</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Cash payments for capital assets	(407,225)	(1,393,897)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(407,225)</u>	<u>(1,393,897)</u>
Net increase (decrease) in cash and cash equivalents	237,266	(33,875)
Cash and cash equivalents, beginning of year	<u>5,379,629</u>	<u>5,413,504</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 5,616,895</u>	<u>\$ 5,379,629</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating income (loss)	\$ (1,232,557)	\$ (1,033,968)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	624,877	497,697
(Increase) decrease in assets:		
Accounts receivable	243,204	231,588
Due from State	(1,668)	(12,262)
Inventory	(3,847)	(5,103)
Prepaid expenses	(49,793)	(25,601)
Resident trust - cash	-	(25,601)
Increase (decrease) in liabilities:		
Accounts payable	(170,464)	217,369
Accrued wages	14,104	(171,461)
Accrued sick and vacation pay	48,672	31,487
Accrued payroll and withholding taxes	2,263	(59,523)
Medicaid interim payments	10,477	90,224
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ (514,732)</u>	<u>\$ (265,154)</u>

The accompanying notes to financial statements are an integral part of this statement.

Houghton County Medical Care Facility
Notes to Financial Statements
September 30, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Houghton County Medical Care Facility conform to generally accepted accounting principles as applicable to governments in the United States of America. The following is a summary of the more significant policies:

(1) Fund Accounting – Houghton County Medical Care Facility Enterprise Fund is a distinct entity and, accordingly, consists of a separate set of self-balancing accounts comprised of the Facility's assets, liabilities, net assets, revenues and expense accounts. The Houghton County Medical Care Facility Fund is defined under generally accepted terminology as a proprietary enterprise fund and is reported as such in the County of Houghton, Michigan's financial statements. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises with the intent of the governing body being that costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

(2) Basis of Accounting – Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. All proprietary funds are accounted for using the accrual basis of accounting. Under the accrual basis, revenues are recognized when they are earned and expenses are recognized when incurred.

(3) Mission Statement and Nonoperating Revenues and Expenses – The Facility's primary mission is to provide skilled nursing services through its facility. Only those activities directly associated with the furtherance of this purpose are considered to be operating activities.

Other activities that result in revenues or expenses unrelated to the Facility's primary mission are considered to be nonoperating. Nonoperating revenues and expenses include property taxes, county appropriations, maintenance of effort, private contributions, rent, proportionate share reimbursement, and other revenue.

(4) Cash and Cash Equivalents – Cash balances of the Facility are combined with other County funds and invested by the County Treasurer to the extent available in demand and savings accounts, certificates of deposit maturing in less than three months, and other authorized investments. Investments are stated at cost, which approximates market value.

(5) Inventory – Inventory is valued at the lower of cost, (first-in, first-out) or market. Inventory consists of expendable supplies held for consumption.

Houghton County Medical Care Facility
Notes to Financial Statements
September 30, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

(6) Land, Buildings, and Equipment – Land, buildings, and equipment (capital assets) relating to the operations of the Facility are recorded at cost and accounted for in the Houghton County Medical Care Facility Enterprise Fund. Depreciation on such capital assets is charged as an expense against the operations of the Facility using straight-line depreciation. Depreciation rates are designed to amortize the cost of the assets over their estimated useful lives ranging from 3 to 40 years.

(7) Board-Designated Assets – Certain investments of the Unrestricted Fund have been internally designated by the Board of Trustees for the funding of plant replacement, expansion and other specified projects and to pay future claims under the County of Houghton's self-insured worker's compensation plan.

(8) Property Taxes – Property taxes levied attach as an enforceable lien on property. Taxes are levied on December 1 and are payable before March 1 of the subsequent year. The County Facility tax is collected by the various local tax collecting units (townships, cities, etc.) and is recognized as revenue in the year in which payment is due. Taxes receivable are recorded when levied, as the legal right to receive exists.

(9) Gifts, Grants, and Bequests – Unrestricted gifts, grants and bequests are recorded at fair market value at the date of receipt and recognized as non-operating revenues, except where the donor has restricted its use. Restricted donations are credited directly to the appropriate restricted fund balance. Donations restricted for operating purposes are recognized as operating income as expenditures are made for the purpose designated by the donor. Donations restricted for additions to property, plant, and equipment are recognized in the Unrestricted Fund as the funds are expended.

(10) Use of Estimates – The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

(11) Concentration of Credit Risk – The Facility provides long-term care nursing services to residents of Houghton and Keweenaw Counties. The majority of the Facility's residents are eligible for Medicaid, Medicare, or another insurance. The Facility does, however, grant credit to residents who are ineligible for third-party insurance. The Facility has not experienced any significant losses from uncollectible accounts.

Houghton County Medical Care Facility
Notes to Financial Statements
September 30, 2005

NOTE B – NET PATIENT SERVICE REVENUES:

Patient service revenue is reported at the estimated net realizable amounts from residents, third-party payors, and others for service rendered. Revenue under third-party payor agreements is subject to audit and retroactive adjustment. Provisions for estimated third-party payor settlements are provided in the period the related services are rendered. Differences between the estimated amounts accrued and interim and final settlements are reported in operations in the year of settlement.

Revenues have been reduced by \$1,517,493 and \$1,585,245 in 2005 and 2004, respectively, to reflect estimated amounts to be realized from third-party payors.

NOTE C – ACCUMULATED SICK AND VACATION LEAVE BENEFITS:

Employees' accrued sick pay is accumulated for all permanent full-time employees at a rate of one-half (1/2) day per bi-weekly pay period, provided the employee is in paid status for eighty percent (80%) of the regular pay period, including unworked paid holidays, paid vacations, and paid leaves. One-half (1/2) of the accumulated sick leave is paid to separated employees at current rates of pay (1) when an employee retires upon reaching the age of sixty (60) years or, (2) upon death while employed at the Facility, one-half (1/2) of the accumulated sick leave will be paid to the designated beneficiary at the employee's rate of pay at the time of death. Accumulated sick pay as of September 30, 2005 and 2004 amounted to \$202,404 and \$165,971 respectively.

Employees' accrued vacation pay is accumulated for all permanent employees at a rate of one-half (1/2) day per bi-weekly pay period, provided the employee is in paid status for eighty percent (80%) of the regular pay period. Bonus annual leave days are earned and credited to an employee in the first pay period in the month on which the anniversary date falls as follows:

1. An additional three (3) days after five (5) years of employment.
2. An additional two (2) days after ten (10) years of employment.
3. An additional two (2) days after fifteen (15) years of employment.
4. An additional two (2) days after twenty (20) years of employment.
5. An additional two (2) days after twenty-five (25) years of employment.

For employees with dates of hire after September 26, 1998, the following restructure of earned annual time would apply. Full and part-time employees would earn on a pro-rated system that will use all hours paid in a pay period up to a maximum of 80 hours to calculate earned benefits. Bonus annual will be built into the rates as years of service increase.

Houghton County Medical Care Facility
Notes to Financial Statements
September 30, 2005

NOTE C – ACCUMULATED SICK AND VACATION LEAVE BENEFITS (Continued):

Years of Employment	Maximum Hours of Annual Leave
Beginning through Year one (1)	40
Beginning Year two (2) through Year five (5)	80
Beginning Year six (6) through Year ten (10)	128
Beginning Year eleven (11) through Year fifteen (15)	144
Beginning Year sixteen (16) through Year twenty (20)	160
Beginning Year twenty-one (21) through Year twenty-five (25)	176
Beginning Year twenty-six (26) and thereafter	192

Annual leave may be accumulated to thirty (30) days and shall be paid at current rates to separated employees. The accumulated vacation pay as of September 30, 2005 and 2004 amounted to \$253,631 and \$241,392 respectively.

NOTE D – RETIREMENT PLAN:

The Facility has in effect a defined benefit non-contributory retirement plan with the Travelers Insurance Company covering substantially all full-time employees. The total retirement expense for the year ended September 30, 2005 and 2004 was \$692,762 and \$572,515, respectively, and includes amortization of past service costs, which are being amortized over a ten year period. The Facility makes annual contributions to the plan as determined by consulting actuaries. The payroll for participating employees for the year ended September 30, 2005 was \$6,399,200, while total payroll expense was \$7,213,911.

Pension Disclosure Information

The Pension Benefit Obligation (PBO) is the actuarial present value of credited projected benefits determined in accordance with the projected unit credit cost method prorated by service. It is a standardized disclosure measure of the present value of pension benefits adjusted for the effects of projected salary increases and any step-rate benefits estimated to be payable in the future as a result of employee service to date. This measure is independent of the actuarial funding method used to determine contributions.

Houghton County Medical Care Facility
Notes to Financial Statements
September 30, 2005

NOTE D – RETIREMENT PLAN (Continued):

The last actuarial valuation date available to determine the PBO is January 1, 2005. Actuarial assumptions used to compute the PBO are as follows:

A. Actuarial Cost Methods – Retirement benefits, vesting, and pre-retirement survivor benefits calculated using the frozen initial liability cost method, with the initial employer liability equal to the January 1, 1974 unfunded employer past service liability based on the entry age normal method. If, in any year, the normal operation of this funding method would produce an unfunded frozen initial liability which is negative, it shall be deemed to be zero.

B. Valuation Assumptions:

1. Interest – 7.5%
2. Expenses and contingencies – 5.0%
3. Retirement age – The greater of normal retirement age specified in the plan or attained age.
4. Normal form of retirement annuity – single life annuity.
5. Mortality – 1983 Group Annuity Table (male and female tables).
6. Turnover – Allowance is made for turnover among eligible employees through the use of Travelers' Turnover Schedule C.
7. Projected salary increases – increases of 5.0% per year are assumed.
8. Pre-retirement survivor benefit – All participants are assumed to be married to an eligible spouse. Male spouses are assumed to be three years older than their female spouses.
9. Cost of Living – IRC Section 415 limits on salary and benefits are assumed to increase 3.0% per annum.

C. Asset Value:

Experience Rating Accumulation – The asset value equals the balance as of the valuation date in the fixed account, which is available to provide benefit payments and expenses. Contributions received after the valuation date but within the allowable grace period that were intended for plan years ending prior to the valuation date are included in this asset value.

Houghton County Medical Care Facility
Notes to Financial Statements
September 30, 2005

NOTE D – RETIREMENT PLAN (Continued):

Annual Pension Cost and Net Pension Obligation as of January 1, 2005:

Annual required contribution, beginning January 1, 2004	\$510,576
Interest on net pension obligation as of January 1, 2004	-
Adjustment to annual required contribution beginning January 1, 2004	-
Annual pension cost, beginning January 1, 2004	<u>510,576</u>
Contributions made, beginning January 1, 2004	<u>510,576</u>
Increase (decrease) in net pension obligation as of January 1, 2004	*-
Net pension obligation as of January 1, 2004	<u>\$-</u>
Net Pension Obligation as of January 1, 2005	<u>\$-</u>

*Based on the assumption that "actuarially required contributions" were made each year starting with the year beginning January 1, 1987 and ending with the year beginning January 1, 1996.

**Analysis of Funding Progress
Three-Year Trend Information**

Actuarial Valuation Date	Actuarial Accrued Liability (AAL)-Entry Age (a)	Actuarial Value of Assets (b)	Unfunded AAL (UAAL) (a) - (b)	Funded Ratio (b/a)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((a-b)/c)
1/01/03	\$11,923,086	\$11,293,462	\$629,624	94.72%	\$6,171,387	10.20%
1/01/04	12,669,590	12,269,131	400,459	96.84	6,598,757	6.07
1/01/05	12,991,807	13,652,549	660,742	95.16	6,399,200	10.33

**Schedule of Employer Contributions
Three-Year Trend Information**

Year Beginning 1/1	Annual Pension Cost	Percentage Contributed	Net Pension Obligation at Year End
2002	\$590,479	100%	\$0
2003	758,330	100%	0
2004	510,576	100%	0

Houghton County Medical Care Facility
Notes to Financial Statements
September 30, 2005

NOTE E – PURCHASE AND REPLACEMENT OF ASSETS:

The Facility has customarily funded depreciation by internally segregating cash and a portion of fund balance equal to the annual depreciation of the assets. The funded depreciation is used to provide for future asset purchases and replacement. An analysis of the activity in the internally designated fund balance-purchase and replacement of assets account is as follows:

	2005	2004
Balance, October 1	\$1,815,892	\$1,983,057
Funding Provision	878,106	1,003,542
Asset and replacement purchases	(458,955)	(1,170,707)
Balance, September 30	<u>\$2,235,043</u>	<u>\$1,815,892</u>

NOTE F – LAND, BUILDINGS AND EQUIPMENT:

Capital assets relating to the Medical Care Facility (Enterprise Fund) are recorded at cost and accounted for in this fund. Depreciation on such capital assets is charged as an expense against operations of the fund on a straight-line basis. For the years ended September 30, 2005 and 2004 depreciation expense of \$624,877 and \$497,697, respectively, has been included in the operating expenses of the Facility.

A summary of the capital assets of the Facility is as follows:

	2005	2004
Land and improvements	\$13,827	\$13,827
Buildings	10,812,809	10,446,861
Fixed equipment	740,125	697,421
Major movable equipment	2,037,993	2,009,869
Work in progress	24,179	53,728
	<u>13,628,933</u>	<u>13,221,706</u>
Less accumulated depreciation	(6,865,027)	(6,240,149)
Net investment	<u>\$6,763,906</u>	<u>\$6,981,557</u>

Houghton County Medical Care Facility
Notes to Financial Statements
September 30, 2005

NOTE F – LAND, BUILDINGS AND EQUIPMENT (Continued):

A summary of the changes in the land, buildings, and equipment is as follows:

	Balance 9/30/04	Additions	Disposals	Balance 9/30/05
Land and improvements	\$13,827	\$-	\$-	\$13,827
Buildings	10,446,861	365,948	-	10,812,809
Fixed equipment	697,421	42,704	-	740,125
Movable equipment	2,009,869	28,124	-	2,037,993
Work in progress	53,728	22,179	51,728	24,179
TOTALS	<u>\$13,221,706</u>	<u>\$458,955</u>	<u>\$51,728</u>	<u>\$13,628,933</u>

NOTE G – WORKERS' COMPENSATION SELF-INSURANCE:

The Facility participates in Houghton County's self-insured worker's compensation plan. The County is self-insured to a maximum limit of \$300,000 - \$350,000 for each occurrence. After the specific limit is reached, a statutory coverage is in place.

As a result of this insurance contract, the Facility has internally designated cash and a portion of fund balance in the amounts of \$387,500 and \$387,500 for 2005 and 2004, respectively, for the payment of future worker's compensation claims. The self-insurance plan is being administered by Citizens Management.

NOTE H – PROPORTIONATE SHARE REIMBURSEMENT REVENUE:

The Michigan Department of Community Health, in order to provide continuing access to long-term care services for Medicaid recipients, modified its reimbursement system to participate in a "proportionate share" pool to qualified long-term care providers. Under such plan the system maximizes the federal Medicaid matching revenues through the intergovernmental transfer program. The Facility participates in this program to the extent of its share of Medicaid utilization in relation to the total for Class III Facilities that are governmentally owned.

NOTE I – APPROPRIATIONS FROM COUNTY OF HOUGHTON/MAINTENANCE OF EFFORT:

The State of Michigan, under Public Act 35, established its method of reimbursing county-owned medical care facilities for Medicaid patient days. Under the provisions of the Act, the County of Houghton is required to reimburse the State for a portion of each day of care provided to Medicaid patients at the Facility. No appropriations from the County of Houghton were required to reimburse the State of Michigan in either 2005 or 2004. Property taxes levied by the facility are used to reimburse the State, and were sufficient in both 2005 and 2004.

Houghton County Medical Care Facility
Notes to Financial Statements
September 30, 2005

NOTE J – DEPOSITS:

Deposits

At September 30, 2005, cash was classified as follows in the Facility's statement of net assets:

Cash and cash equivalents	\$2,994,352
Internally Designated Cash:	
Replacement of capital assets	2,235,043
Workers compensation contingency	387,500
Resident trust – cash	4,487
TOTAL	<u>\$5,621,382</u>

At September 30, 2005, cash consisted of the following:

Cash in banks	\$5,237
Imprest cash on hand	750
Cash held with County Treasurer	5,577,895
Cash held by fiscal agents	37,500
TOTAL	<u>\$5,621,382</u>

The cash of the Facility needs to be considered in conjunction with the overall County cash position in regards to Governmental Accounting Standards Board Statement #40 required note disclosures. This information can be found in the September 30, 2005 combined annual financial statements for the County of Houghton, Michigan.

NOTE K – DEFERRED COMPENSATION PLAN:

The Facility offers its employees a deferred compensation plan in accordance with Section 457 of the Internal Revenue Code. The plan, available to substantially all employees, permits them to defer a portion of their current salary until future years. The deferred compensation is not available to the employees until termination, retirement, death or unforeseeable emergency.

Due to changes in the Internal Revenue Code, the plan's assets are considered to be property of the plan's participants and are no longer subject to the Facility's general creditors. The plan's participants have the right to designate how the funds will be invested. Accordingly, the Facility has no liability for losses under the plan. The plan's assets are held in trust for the exclusive benefit of the plan's participants and their beneficiaries.

Houghton County Medical Care Facility
Notes to Financial Statements
September 30, 2005

NOTE L – CONSTRUCTION IN PROGRESS:

The Facility completed its construction of the Phase II Remodeling project for which the total project cost was estimated at \$3,625,000 in the year 2004. The project was financed with current resources of the Facility. As of September 30, 2005, total construction costs placed into service were \$3,600,821 and construction costs incurred and reported in work in progress amounted to \$24,179.

OTHER FINANCIAL INFORMATION

Houghton County Medical Care Facility
Details of Operating Revenues
For the years ended September 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
PATIENT SERVICE REVENUES:		
Medicare	\$ 672,871	\$ 444,601
Medicaid	11,297,438	11,004,563
Hospice	146,520	215,904
Private insurance and self pay	1,007,592	1,075,394
Other counties	<u>154,732</u>	<u>139,383</u>
Gross Patient Service Revenues	13,279,153	12,879,845
Less Contractual Adjustments	<u>(1,517,493)</u>	<u>(1,585,245)</u>
NET PATIENT SERVICE REVENUES	<u>\$ 11,761,660</u>	<u>\$ 11,294,600</u>
OTHER OPERATING REVENUES		
Canteen and pop sales	\$ 14,621	\$ 19,708
Other sales	<u>201</u>	<u>946</u>
OTHER OPERATING REVENUES	<u>\$ 14,822</u>	<u>\$ 20,654</u>

Houghton County Medical Care Facility
Details of Operating Expenses
For the years ended September 30, 2005 and 2004

	2005	2004
General and Administrative		
Salaries and wages	\$ 355,840	\$ 354,477
Payroll taxes	541,475	530,205
Hospitalization and life insurance	1,488,175	1,373,675
Retirement	692,762	572,515
Other fringe benefits	5,988	6,074
Worker's compensation insurance	222,443	309,715
Unemployment compensation	18,703	13,674
Office supplies and expense	32,991	31,898
Contractual services	75,257	56,513
Memberships and subscriptions	28,512	25,125
Telephone	16,512	20,329
Travel	13,836	8,859
Insurance and bonds	126,469	72,810
Equipment repair	901	885
Equipment rental	1,802	1,605
Other expense	1,697	1,562
Employee training and improvement	1,347	1,347
TOTAL	<u>\$ 3,624,710</u>	<u>\$ 3,381,268</u>
Maintenance		
Salaries and wages	\$ 355,869	\$ 347,260
Repairs and maintenance	113,057	77,550
Contractual services	40,985	49,177
Utilities	430,680	399,560
TOTAL	<u>\$ 940,591</u>	<u>\$ 873,547</u>
Laundry		
Salaries and wages	\$ 279,910	\$ 277,724
Supplies	9,988	11,909
Bedding and linen	10,086	8,214
TOTAL	<u>\$ 299,984</u>	<u>\$ 297,847</u>
Housekeeping		
Salaries and wages	\$ 376,916	\$ 370,766
Janitorial supplies	67,097	51,871
TOTAL	<u>\$ 444,013</u>	<u>\$ 422,637</u>
Dietary		
Salaries and wages	\$ 713,171	\$ 686,457
Food	445,804	418,426
Kitchen supplies	48,386	51,294
Equipment repair and maintenance	4,267	4,666
TOTAL	<u>\$ 1,211,628</u>	<u>\$ 1,160,843</u>

Houghton County Medical Care Facility
Details of Operating Expenses
For the years ended September 30, 2005 and 2004

		<u>2005</u>	<u>2004</u>
Pharmacy			
Drugs and pharmaceuticals		\$ 60,511	\$ 45,380
Consultants		7,500	7,500
	TOTAL	<u>\$ 68,011</u>	<u>\$ 52,880</u>
Nursing			
Salaries and wages		\$ 4,660,548	\$ 4,545,826
Medical supplies		12,811	16,404
Other supplies		401,264	391,643
Labs and X-Rays		21,419	18,023
Contractual and Consultants		20,407	33,808
Equipment repairs and maintenance		1,195	455
Other expense		2,526	9,454
	TOTAL	<u>\$ 5,120,170</u>	<u>\$ 5,015,613</u>
Social Services			
Salaries and wages		\$ 115,219	\$ 111,004
	TOTAL	<u>\$ 115,219</u>	<u>\$ 111,004</u>
Physical Therapy			
Salaries and wages		\$ 132,867	\$ 129,543
Supplies		3,509	9,224
Contractual and Consultants		141,439	114,941
	TOTAL	<u>\$ 277,815</u>	<u>\$ 253,708</u>
Occupational Therapy			
Salaries and wages		\$ 223,571	\$ 222,679
Supplies		8,929	7,468
	TOTAL	<u>\$ 232,500</u>	<u>\$ 230,147</u>
Vehicles			
Gas, oil and grease		\$ 6,781	\$ 5,737
Supplies		518	533
Equipment repair and maintenance		2,912	3,891
	TOTAL	<u>\$ 10,211</u>	<u>\$ 10,161</u>
Professional Services			
Contractual and Consultants		\$ 28,472	\$ 26,035
	TOTAL	<u>\$ 28,472</u>	<u>\$ 26,035</u>
Other Expense			
Canteen		\$ 10,665	\$ 16,792
Miscellaneous		173	389
	TOTAL	<u>\$ 10,838</u>	<u>\$ 17,181</u>

Houghton County Medical Care Facility
Details of Operating Expenses
For the years ended September 30, 2005 and 2004

		<u>2005</u>	<u>2004</u>
Depreciation			
Depreciation expense		\$ 624,877	\$ 497,697
	TOTAL	<u>\$ 624,877</u>	<u>\$ 497,697</u>
Provision for Bad Debt			
Bad debt expense		\$ -	\$ -
	TOTAL	<u>\$ -</u>	<u>\$ -</u>

SUPPLEMENTAL REPORTS



ANDERSON, TACKMAN & COMPANY, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

JOHN W. BLEMBERG, CPA

ROBERT J. DOWNS, CPA, CVA

DANIEL E. BIANCHI, CPA

MICHIGAN
ESCANABA
IRON MOUNTAIN
KINROSS
MARQUETTE

WISCONSIN
GREEN BAY
MILWAUKEE

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Department of Human Services Board
Houghton County Medical Care Facility

We have audited the statement of net assets of the Houghton County Medical Care Facility, an enterprise fund of the County of Houghton, as of September 30, 2005 and 2004, and the related statement of revenues, expenses and changes in net assets and statement of cash flows for the years then ended, and have issued our report thereon dated November 16, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Houghton County Medical Care Facility's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Houghton County Medical Care Facility's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Department of Human Services Board
Houghton County Medical Care Facility

This report is intended solely for the information and use of the Board and management of the Houghton County Medical Care Facility, and other federal and state audit agencies and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tackman & Company, PLC
Certified Public Accountants

November 16, 2005